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**ASSURANCE AND ADVISORY
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ASSURANCE SERVICES

Financial Statements

Garbell Holdings Limited

December 31, 2002

 **ERNST & YOUNG**

GARBELL HOLDINGS LIMITED

DIRECTORS

H. Anthony Arrell
Ralph M. Barford
David R. Beatty
Geoffrey A. Cumming
Edward A. Kukiel
Arthur R.A. Scace

OFFICERS

Ralph M. Barford
Geoffrey A. Cumming
Edward A. Kukiel
Irena Vones
Muriel A. Simpson

Chairman of the Board
Vice-Chairman
President and Chief Operating Officer
Secretary
Vice-President, Finance and Treasurer

HEAD OFFICE

Suite 1770
Standard Life Centre
P.O. Box 35
Toronto, Ontario
M5H 3T9

FOR FURTHER INFORMATION CONTACT

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TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Ontario

**FIRST PREFERENCE SHARES LISTED
UNDER SYMBOL 'GBH.PR.A' FOR
TRADING ON:
TSX Venture Exchange**

AUDITORS

Ernst & Young LLP
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

TD Canada Trust
Toronto, Ontario



AUDITORS' COMPLIANCE REPORT

To the First Preference Shareholders of
Garbell Holdings Limited

We have audited **Garbell Holdings Limited**'s compliance as at December 31, 2002 with the criteria established by Section 2, paragraphs (F) and (I) of the Articles of Amendment of the Company dated November 19, 1984. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Company's management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Company complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with the agreement and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the Company is in compliance, in all material respects, as at December 31, 2002 with the criteria established by Section 2, paragraphs (F) and (I) of the Articles of Amendment of the Company dated November 19, 1984.

Toronto, Canada,
March 28, 2003.

Ernst & Young LLP

Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Garbell Holdings Limited

We have audited the balance sheets of **Garbell Holdings Limited** as at December 31, 2002 and 2001 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
March 28, 2003.

Ernst & Young LLP

Chartered Accountants

Garbell Holdings Limited
Incorporated under the laws of Ontario

BALANCE SHEETS

As at December 31

| | 2002 \$ | 2001 \$ |
|--|-------------------|------------|
| ASSETS | | |
| Long-term investments | | |
| Investment with no quoted market value | | |
| Gardiner Group Capital Limited [note 2] | 19,705,000 | 19,705,000 |
| Investments with a quoted market value of \$45,011,000 | | |
| [2001 - \$44,957,000] [schedule] | 36,990,000 | 34,266,000 |
| Total long-term investments | 56,695,000 | 53,971,000 |
| Cash and cash equivalents | 10,513,000 | 1,440,000 |
| Dividends and other receivables | 113,000 | 77,000 |
| Income taxes recoverable | 675,000 | 2,315,000 |
| | 67,996,000 | 57,803,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued charges | 203,000 | 230,000 |
| Future income taxes [note 5] | — | 123,000 |
| Total liabilities | 203,000 | 353,000 |
| Shareholders' equity | | |
| Share capital [note 3] | 5,781,000 | 5,781,000 |
| Retained earnings | 62,012,000 | 51,669,000 |
| Total shareholders' equity | 67,793,000 | 57,450,000 |
| | 67,996,000 | 57,803,000 |

See accompanying notes

On behalf of the Board:

E. Kehl

Director

A. St. Asac

Director

Garbell Holdings Limited

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31

| | 2002 \$ | 2001 \$ |
|--|-------------------|-------------------|
| REVENUE | | |
| Dividends | 1,920,000 | 2,083,000 |
| Interest | 475,000 | 311,000 |
| Gain (loss) on disposal of long-term investments | 8,221,000 | (230,000) |
| | 10,616,000 | 2,164,000 |
| General and administrative expenses [note 4] | 876,000 | 829,000 |
| Income before income taxes | 9,740,000 | 1,335,000 |
| Recovery of income taxes [note 5] | | |
| Current | (630,000) | (70,000) |
| Future | (123,000) | (37,000) |
| | (753,000) | (107,000) |
| Net income for the year | 10,493,000 | 1,442,000 |
| Retained earnings, beginning of year | 51,669,000 | 50,377,000 |
| Dividends paid on first preference shares | (150,000) | (150,000) |
| Retained earnings, end of year | 62,012,000 | 51,669,000 |
| Net income per share | \$12.50 | \$1.56 |

See accompanying notes

Garbell Holdings Limited

STATEMENTS OF CASH FLOWS

Years ended December 31

| | 2002 \$ | 2001 \$ |
|---|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Net income for the year | 10,493,000 | 1,442,000 |
| Add (deduct) items not involving cash | | |
| Loss (gain) on disposal of investments | (8,221,000) | 230,000 |
| Future income taxes | (123,000) | (37,000) |
| | 2,149,000 | 1,635,000 |
| Changes in non-cash working capital balances related to operations | | |
| Dividends and other receivables | (36,000) | 75,000 |
| Income taxes recoverable | 1,640,000 | (5,022,000) |
| Accounts payable and accrued charges | (27,000) | 4,000 |
| Cash provided by (used in) operating activities | 3,726,000 | (3,308,000) |
| INVESTING ACTIVITIES | | |
| Proceeds from disposal of long-term investments | 30,650,000 | 18,284,000 |
| Purchase of long-term investments | (25,153,000) | (14,843,000) |
| Cash provided by investing activities | 5,497,000 | 3,441,000 |
| FINANCING ACTIVITIES | | |
| Dividends paid on first preference shares | (150,000) | (150,000) |
| Cash used in financing activities | (150,000) | (150,000) |
| Net increase (decrease) in cash and cash equivalents during the year | 9,073,000 | (17,000) |
| Cash and cash equivalents, beginning of year | 1,440,000 | 1,457,000 |
| Cash and cash equivalents, end of year | 10,513,000 | 1,440,000 |
| Supplemental cash flow information | | |
| Interest paid | — | — |
| Income taxes paid | — | 4,955,000 |
| Income taxes recovered | 2,294,000 | — |

See accompanying notes

Garbell Holdings Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Garbell Holdings Limited [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies summarized below:

Long-term investments

Long-term investments are carried at cost. Investments are written down to their market value only if an other than temporary decline in market value has occurred.

The quoted market value of investments does not necessarily represent the value of entire blocks of investment holdings, which may be more or less than the value indicated by market quotations.

Dividends are recognized as income on the record date. Gains and losses from investment transactions are calculated on an average cost basis. Interest income is recorded on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities at acquisition of less than three months.

Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using tax rates and laws that are expected to be in effect when the differences are expected to reverse. Such differences arise in flow through share investments through which oil and gas exploration incentives can be claimed by the investor.



Garbell Holdings Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the determination of net income for the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. INVESTMENT IN GARDINER GROUP CAPITAL LIMITED

The investment in Gardiner Group Capital Limited ["Gardiner Group"] is as follows:

| | 2002 | 2001 |
|---|-------------------|-------------|
| | \$ | \$ |
| 35,800 first preference shares, at cost | 19,705,000 | 19,705,000 |

The first preference shares of Gardiner Group are redeemable at any time at the option of Gardiner Group or the Company at \$866 per share.

In addition, the first preference shares of Gardiner Group are non-voting and are entitled to a fixed cumulative dividend of \$23 per share per annum. In 2002, dividends of \$823,000 [2001 - \$823,000] were paid on the first preference shares.

Gardiner Group is a private investment holding company incorporated under the laws of Ontario. The Company owns 100% of the first preference shares of Gardiner Group and has the right to elect one of six directors of Gardiner Group.



Garbell Holdings Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

3. SHARE CAPITAL

Share capital consists of the following:

| | 2002 | 2001 |
|--|------------------|------------------|
| | \$ | \$ |
| Authorized | | |
| 285,900 10.5% cumulative, redeemable, voting first preference shares | | |
| 2,381,059 8% non-cumulative, non-voting second preference shares without par value, redeemable at \$10 per share | | |
| 988,655 common shares | | |
| Issued and outstanding | | |
| 285,900 first preference shares | 1,430,000 | 1,430,000 |
| 76 second preference shares | 1,000 | 1,000 |
| 827,335 common shares | 4,350,000 | 4,350,000 |
| | 5,781,000 | 5,781,000 |

The first preference shares are redeemable on a pro-rata basis at the option of the Company at \$5 per share plus accumulated dividends.

The Company is required to make a reasonable effort to purchase for cancellation up to 6,000 first preference shares annually in the open market at prices not exceeding \$5 per share plus accumulated dividends unless the purchase price of such shares is in excess of their fair market value as determined in relation to yields on comparable preference shares of Canadian corporations. No first preference shares were redeemed or repurchased in 2002 or 2001. Each first preference share entitles the owner to four votes.

The first preference shares are subject to certain tests with respect to the maintenance of qualified investments and net asset values. These tests were met as at December 31, 2002.

The second preference shares are redeemable at \$10 per share at the option of the holder or the Company, subject to the conditions of the first preference shares being fulfilled.

Garbell Holdings Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

4. GENERAL AND ADMINISTRATIVE EXPENSES

During the year, the Company reimbursed Gardiner Group for general and administrative expenses of \$38,000 [2001 - \$128,000] which were incurred by Gardiner Group on the Company's behalf.

5. INCOME TAXES

A reconciliation of the recovery of income taxes calculated at the statutory rate to the amount provided in the financial statements is as follows:

| | 2002 \$ | 2001 \$ |
|---|-------------------|-------------------|
| Income taxes at statutory rate of 39% [2001 - 43%] | 3,799,000 | 574,000 |
| Add (deduct) | | |
| Non-taxable portion of loss (gain) on disposal of investments | (3,850,000) | 48,000 |
| Legislative changes to tax rates | (68,000) | — |
| Non-taxable dividends from Canadian corporations | (634,000) | (709,000) |
| Miscellaneous | — | (20,000) |
| | (753,000) | (107,000) |

The components of the future tax liability are as follows:

| | 2002 \$ | 2001 \$ |
|---|-------------------|-------------------|
| Difference in tax cost and book cost of investments | — | 125,000 |
| Unclaimed tax deductions | — | (2,000) |
| | — | 123,000 |



**SCHEDULE OF INVESTMENTS
WITH A QUOTED MARKET VALUE cont'd**

As at December 31, 2002

| Description | | Carrying value \$ | Market value \$ |
|---------------------------|----------------------------------|-------------------------|-----------------------|
| U.S. common shares | | | |
| 17,100 | Albertsons Inc. | 638,000 | 601,000 |
| 3,500 | Becton Dickinson and Company | 175,000 | 170,000 |
| 66 | Berkshire Hathaway Inc., Class A | 6,980,000 | 7,583,000 |
| 7,000 | Citigroup Inc. | 369,000 | 389,000 |
| 27,300 | Dun & Bradstreet Corp., New | 863,000 | 1,487,000 |
| 8,000 | El Paso Corporation | 137,000 | 88,000 |
| 12,000 | Flextronics International Ltd. | 148,000 | 155,000 |
| 3,000 | Guidant Corporation | 147,000 | 146,000 |
| 8,500 | IMS Health Inc. | 221,000 | 215,000 |
| 3,000 | Kelly Services Inc. | 108,000 | 117,000 |
| 20,800 | Liberty Media Corp., Class A | 223,000 | 293,000 |
| 3,000 | Loew's Corp. | 239,000 | 210,000 |
| 4,500 | Merck & Co. Inc. | 293,000 | 402,000 |
| 14,000 | Moody's Corporation | 614,000 | 913,000 |
| 6,000 | National Semiconductor Corp. | 178,000 | 142,000 |
| 9,000 | Pall Corporation | 238,000 | 237,000 |
| 47,600 | Phillip Morris Companies Inc. | 2,224,000 | 3,046,000 |
| 28,000 | Progressive Corp. | 452,000 | 2,195,000 |
| 5,000 | Safeway Inc. | 176,000 | 184,000 |
| 2,000 | Scholastic Corp. | 128,000 | 113,000 |
| 2,500 | Transkaryotic Therapies, Inc. | 147,000 | 39,000 |
| 20,000 | Vertex Pharmaceutical Inc. | 533,000 | 500,000 |
| 3,075 | Washington Post, Class B | 2,375,000 | 3,584,000 |
| 7,500 | ZymoGenetics Inc. | 80,000 | 117,000 |
| | | 17,686,000 | 22,926,000 |
| | | 36,990,000 | 45,011,000 |

**SCHEDULE OF INVESTMENTS
WITH A QUOTED MARKET VALUE cont'd**

As at December 31, 2002

* The total debt investment outstanding, at maturity values, as at December 31, 2002 bears interest at average annual rates ranging from 4.25% to 6.75% and is due as follows:

| | \$ |
|------|------------------------|
| 2004 | 1,073,000 |
| 2007 | 260,000 |
| 2008 | 2,700,000 |
| | <hr/> 4,033,000 |

**SCHEDULE OF INVESTMENTS
WITH A QUOTED MARKET VALUE**

As at December 31, 2001

| Description | | Carrying value \$ | Market value \$ |
|--|---|-----------------------------|---------------------------|
| Canadian preferred shares and trust units | | | |
| 2,500,000 | Conoco Canada Resources Limited, Series 1 preferred [formerly Gulf Canada Resources] | 8,805,000 | 10,750,000 |
| 71,250 | PrimeWest Energy Trust Units | 2,531,000 | 1,813,000 |
| | | 11,336,000 | 12,563,000 |
| Bonds and debentures | | | |
| 400,000 | Gov't of Canada, 6%, 01 Jun 08 | 405,000 | 420,000 |
| 1,000,000 | Gov't of Canada, 7.25%, 01 Jun 07 | 1,107,000 | 1,113,000 |
| 700,000 | Precision Drilling, 6.85%, 26 Jun 07 | 733,000 | 706,000 |
| 500,000 | Prov of New Brunswick, 5.7%, 02 Jun 08 | 488,000 | 509,000 |
| 500,000 | Prov of Ontario, 6.125%, 12 Sep 07 | 501,000 | 525,000 |
| | | 3,234,000 | 3,273,000 |
| Canadian common shares | | | |
| 56,600 | Great West Lifeco Inc. | 1,559,000 | 1,941,000 |
| 108,290 | Heroux Inc. | 339,000 | 1,083,000 |
| 53,300 | Investors Group Inc. | 1,161,000 | 1,359,000 |
| 93,300 | Ritchie Brothers Auctioneers Inc. | 3,472,000 | 3,697,000 |
| 81,300 | Rothmans Inc. | 1,975,000 | 2,427,000 |
| 2,553,556 | Spire Energy Ltd. | 1,791,000 | 4,341,000 |
| | | 10,297,000 | 14,848,000 |
| U.S. common shares | | | |
| 24,000 | Albertsons Inc. | 896,000 | 1,204,000 |
| 25 | Berkshire Hathaway Inc., Class A | 2,676,000 | 3,010,000 |
| 27,300 | Dun & Bradstreet Corp., New | 863,000 | 1,535,000 |
| 7,800 | Hillenbrand Industries Inc. | 352,000 | 687,000 |
| 14,000 | Moody's Corporation | 613,000 | 889,000 |
| 25,300 | Phillip Morris Companies Inc. | 789,000 | 1,848,000 |
| 11,600 | Progressive Corp. | 1,093,000 | 2,758,000 |
| 2,775 | Washington Post, Class B | 2,117,000 | 2,342,000 |
| | | 9,399,000 | 14,273,000 |
| | | 34,266,000 | 44,957,000 |

